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No. 95-136

In The

Supreme Court of the United States

October Term, 1995

KELLEY COMPANY, INC.,

Petitioner,

v.

RITE-HITE CORPORATION, ET AL.,

Respondents.

On Petition For A Writ Of Certiorari
To The United States Court Of Appeals
For The Federal Circuit

BRIEF FOR THE RESPONDENT RITE-HITE CORPORATION IN OPPOSITION

THOMAS L. SHRINER, JR.
Counsel of Record
RICHARD S. FLORSHEIM
JEFFREY N. COSTAKOS
FOLEY & LARDNER
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
(414) 271-2400

THEODORE W. ANDERSON
LEYDIG, VOIT & MAYER
2 Prudential Plaza – Suite 4900
Chicago, Illinois 60601
(312) 616-5600
Attorneys for the Respondent

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24 pp

TABLE OF CONTENTS

Page

OPINIONS BELOW 1

JURISDICTION 2

STATEMENT OF THE CASE 2

SUMMARY OF ARGUMENT 6

ARGUMENT 6

This Case Presents No Special Or Important Reason Why This Court Should Exercise Its Discretionary Jurisdiction To Review A Decision Of The Federal Circuit Applying The Patent Damages Statute 6

A. The Federal Circuit's Decision Does Not Conflict With Applicable Decisions Of This Court 8

1. The Court Of Appeals Followed This Court's Patent Damages Decisions 8

2. The Court Of Appeals Followed This Court's Approach To Statutory Construction 11

B. There Is No Reason For This Court To Take This Case Up 14

1. This Case Presents No Constitutional Question 15

2. The Statutory Interpretation Question Presented Was Correctly Decided And, In Any Event, Should Be Left Up To The Federal Circuit 17

CONCLUSION 20

TABLE OF AUTHORITIES

Page

CASES:

Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd., 895 F.2d 736 (Fed. Cir. 1990) 14

Aro Manufacturing Co. v. Convertible Top Replacement Co., 377 U.S. 476 (1964) 9, 10, 17

Carl Schenck, A.G. v. Nortron Corp., 713 F.2d 782 (Fed. Cir. 1983) 18

Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405 (1908) 12, 13

Dawson Chemical Co. v. Rohm & Haas Co., 448 U.S. 176 (1980) 13

Dobson v. Hartford Carpet Co., 114 U.S. 439 (1885) 10

Diamond v. Chakrabarty, 447 U.S. 303 (1980) 9

Ethyl Gasoline Corp. v. United States, 309 U.S. 436 (1940) 11

General Motors Corp. v. Devex Corp., 461 U.S. 648 (1983) 8, 9, 11, 17

Heckler v. Day, 467 U.S. 104 (1984) 14

Panduit Corp. v. Stahlin Brothers Fibre Works, Inc., 575 F.2d 1152 (6th Cir. 1978) 4

CONSTITUTION, STATUTES, AND RULES:

U.S. Constitution, art. I, § 8 16

28 U.S.C. § 1254(1) 2

28 U.S.C. § 1295(a)(1) 6

35 U.S.C. § 154 18

TABLE OF AUTHORITIES – Continued

Page

35 U.S.C. § 271(d)(4) 12, 13, 14

35 U.S.C. § 284 ..... 4, 9, 11, 12, 14, 17

Act of April 10, 1790 16

S. Ct. R. 10.1 ..... 6, 7, 8

S. Ct. R. 15.1 7

S. Ct. R. 29.1 2

Fed. R. Civ. P. 52(a) 18

MISCELLANEOUS:

H.R. Rep. No. 312, 97th Cong., 1st Sess. (1981) 7

S. Rep. No. 1503, 79th Cong., 2d Sess. 2 (1946) 12

COMPULSORY LICENSING OF PATENTS – A LEGISLATIVE HISTORY, 85th Cong., 2d Sess. 1-15 (Comm. Pr. 1958) 13

Hearings on H.R. 5231 (later reported as H.R. 5311) before the House Committee on Patents, 79th Cong., 2d Sess. 17, 19-20 (1946) 13

5 Donald S. Chisum, PATENTS § 20.03[1][c][i] at 20-122 (1993) 11

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OPINIONS BELOW

The opinion of the Court of Appeals (App. 1a) is reported at 56 F.3d 1538 (Fed. Cir. 1995) (*in banc*). The District Court opinion (App. 95a) is reported at 774 F. Supp. 1514 (E.D. Wis. 1991). The earlier liability opinion of the Court of Appeals (App. 150a) is reported at 819 F.2d 1120 (Fed. Cir. 1987), and the District Court's liability opinion (App. 162a) is reported at 629 F. Supp. 1042 (E.D. Wis. 1986).

JURISDICTION

The judgment of the *in banc* Court of Appeals was entered on June 15, 1995. The petition for a writ of certiorari was filed on July 24, 1995. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATEMENT OF THE CASE

The petitioner ("Kelley") asks the Court for a writ of certiorari to review a decision of the United States Court of Appeals for the Federal Circuit. (App. 1a) The case involves damages for patent infringement; the decision below affirmed in substantial part the District Court's judgment awarding damages to the respondent ("Rite-Hite"),[1] partly on the basis of lost profits and partly on the basis of a reasonable royalty. (App. 95a)

The patent in suit belongs to Rite-Hite, a direct competitor of Kelley in the dock leveler and truck restraint business. The patent is for a truck restraint device, used to prevent trucks from pulling away from loading docks during loading and unloading operations. This is one of several pioneering Rite-Hite patents that created the truck restraint industry. The patent issued on February 15, 1983, and Rite-Hite commenced suit against Kelley a month later, alleging that Kelley's truck restraint device infringed the patent.

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[1] Notation required by Rule 29.1: Rite-Hite Corporation has no parent or subsidiary companies.

The District Court found on May 29, 1985 that Kelley had infringed the patent (App. 163a) and entered a liability judgment, including an injunction against infringement, on March 5, 1986. (App. 162a). Kelley, which had continued to manufacture and sell infringing products after the liability finding in 1985, persuaded the District Court to stay its injunction during appeal (App. 206a) and, therefore, continued its infringing conduct. Only after the Federal Circuit affirmed the judgment of liability on April 30, 1987 (App. 150a) did Kelley finally cease manufacturing and selling the infringing product. (App. 111a)

In the damages trial that followed, the District Court found that Kelley's sales of its infringing truck restraints during the over four years that it took Rite-Hite to obtain effective injunctive relief caused Rite-Hite to lose sales of 3,323 truck restraints. (App. 112a) Because Rite-Hite proved that it had contacted the Kelley customer before the infringing Kelley sale, that there was no other competitor, and that Rite-Hite would have made the sale but for the sale of the infringing product, the District Court awarded Rite-Hite its lost profits on all these sales. (App. 112a-113a)

The court found that Rite-Hite had established its lost profits and its right to recover them in three separate ways. First, it had proved by the direct testimony of salespeople that the 3,323 sales of truck restraints made by Kelley would have been made by Rite-Hite but for Kelley's infringement. (App. 112a-117a) Secondly, it had established the lost sales by a market share analysis, the accuracy of which was conceded at trial by Kelley. (App. 117a-118a) Finally, it had satisfied the elements of the

"useful, but non-exclusive" (App. 9a) test for proving lost profits set out in *Panduit Corp. v. Stahlin Brothers Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978). (App. 117a-120a) The Court of Appeals, in affirming, noted that the District Court's "decision to award lost profits damages pursuant to 35 U.S.C. § 284 turned primarily upon the quality of Rite-Hite's proof of actual lost profits." (App. 6a)

The District Court said that it made its award of lost profits damages because Rite-Hite had developed two different truck restraint technologies, both of which were patented and commercially successful, and because Kelley copied the technology of the patent in suit, intending to use it primarily to compete against Rite-Hite's other patented technology. (App. 140a-141a) Under these circumstances, the District Court concluded that an award of lost profits on all sales that Kelley took from Rite-Hite by infringing its patent would (1) uphold "the basic statutory purpose" of affording " 'complete compensation' for infringement"; (2) compensate Rite-Hite for sales that Kelley "anticipated taking from Rite-Hite" by an award that "Kelley could reasonably have foreseen" by reason of its infringing activities; and (3) prevent use of the "whipsaw" technique of an infringer's avoiding lost profits liability on either of two patented technologies by using one technology to compete with the patentee's product embodying the other, and *vice versa*.[2] (App. 141a-142a)

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[2] Judge Newman pointed out that such a situation is "not unusual." In addition to this case, she pointed to examples in the chemical field:

> where inventors may create related chemical compounds, obtain patents as the research progresses, and commercialize one of them. Should the infringer

For 502 other truck restraint sales by Kelley, as to which Rite-Hite was unable to prove that it had contacted the buyer first, the District Court awarded Rite-Hite damages at both the manufacturing and the retail level, based on a reasonable royalty.[3] (App. 130a)

The Court of Appeals' decision which Kelley seeks to bring here by certiorari was joined in by eight of the twelve participating judges of the Federal Circuit. The majority opinion by Judge Lourie (App. 1a) spoke for six of the judges. Judge Newman, in an opinion (App. 79a) joined by Judge Rader, agreed with the majority on the portions of the decision for which Kelley seeks review, but would have affirmed the entire damages judgment. Judge Nies wrote a dissenting opinion (App. 31a) for herself and two other active judges and a senior judge. Kelley has adopted Judge Nies' opinion as its text.

> divert sales from another member of this series, according to Kelley, the only damages available would be a royalty at a sufficiently low rate to provide a profit to the infringer. The patent law is not prisoner to such irrational economics.

(App. 81a)

[3] The District Court awarded Rite-Hite additional damages for lost profits on so-called "convoyed sales" of related products that would have been sold but for the infringement. It also awarded damages calculated on a reasonable royalty basis to certain independent sales organizations which joined Rite-Hite as plaintiffs and proved lost retail sales. The Court of Appeals reversed these portions of the damages judgment, and Kelley has naturally not sought review of that part of its decision, so it will be disregarded for present purposes.

SUMMARY OF ARGUMENT

The decision of the Court of Appeals does not conflict with any applicable decision of this Court. The Federal Circuit's decision was correct, but even if it were not, there is no good reason why the Court should substitute its view for that of the Federal Circuit on this question of patent damages.

ARGUMENT

This Case Presents No Special Or Important Reason Why This Court Should Exercise Its Discretionary Jurisdiction To Review A Decision Of The Federal Circuit Applying The Patent Damages Statute.

This Court exercises its discretionary jurisdiction to review cases only when a petition for certiorari presents "special and important reasons therefor." Rule 10.1. This case presents only an issue of patent damages which does not meet the Court's criteria.

Coming from the Federal Circuit, which exercises exclusive appellate jurisdiction in patent cases,[4] this case obviously does not present a circuit split, so as to justify the Court's review under Rule 10.1(a).

This indisputable fact has not kept Kelley from arguing that the Federal Circuit's decision was wrong because it "conflicts with virtually every circuit." (Pet. 21) Rather than lengthening this brief with refutation of the point by

[4] 28 U.S.C. § 1295(a)(1).

discussion of the cases, Rite-Hite notes[5] that this misstatement of the law has no bearing on the issues that would properly be before the Court if certiorari were granted. If there were an inconsistency between Federal Circuit precedent and older patent law precedent from the regional courts of appeals, the latter would necessarily yield. Indeed, one of Congress' goals in creating the Federal Circuit was to create uniformity in patent law. *See* H.R. Rep. No. 312, 97th Cong., 1st Sess. 20 (1981). The "conflict," even if there were one, would not be a ground for this Court to take the case.

That leaves Kelley to rely on Rule 10.1(c), which, in the absence of a circuit split, requires that the issue raised be an "important question . . . which has not been, but *should be* settled by this Court, or . . . that *conflicts with* applicable decisions of this Court" (emphasis supplied). In other words, Kelley must show why this question of patent damages, already resolved by the careful attention of twelve judges of the Federal Circuit, should now take up the limited space on this Court's docket, or must show which of this Court's decisions the Federal Circuit has misapplied.

Kelley's failure to address Rule 10.1(c)'s criteria is emblematic of Kelley's wrongheaded conception of a petition for certiorari as just another stage in the twelve-year-plus history of this case in which the patent infringer, which has lost at every stage of the case so far, gets to try to convince another group of judges that the last group "got it wrong." Error correction is not the

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[5] *See* Rule 15.1.

office of the writ of certiorari. The petition presents no compelling reason – because there is none – why the Court should second-guess the judgment of the *in banc* Federal Circuit on a question of patent damages.

Even though Kelley has not shown why certiorari should be granted, Rite-Hite will briefly demonstrate why certiorari should not here be granted. Taking the criteria of Rule 10.1(c) in reverse order, Rite-Hite will show that the Court of Appeals' decision does *not* conflict with decisions of this Court and that there is *no reason* why this Court should now involve itself in the Federal Circuit's effort to clarify and regularize the law of patent damages. In sum, while this Court has never decided the precise issue presented by Kelley's petition, the Federal Circuit's resolution of it was consistent with and built upon this Court's decisions, and there is no good reason why the Court should interject itself into this question of interpretation of a patent statute.

A. The Federal Circuit's Decision Does Not Conflict With Applicable Decisions Of This Court.

A reading of the majority opinion shows that the Court of Appeals correctly applied this Court's modern pronouncements on both statutory construction and patent damages.

1. The Court Of Appeals Followed This Court's Patent Damages Decisions.

Focusing on the language of the patent statute, as this Court instructed in *General Motors Corp. v. Devex*

Corp., 461 U.S. 648, 653-54 (1983), the Court of Appeals began its analysis with Congress' direction that an infringement award should be "damages adequate to compensate for the infringement." 35 U.S.C. § 284.

The Court of Appeals then looked to this Court's explication of that language in *General Motors* as reflecting a congressional desire to "ensure that the patent owner would in fact receive full compensation for 'any damages' [the patent owner] suffered as a result of the infringement." 461 U.S. at 654. The Federal Circuit interpreted that teaching as meaning that " 'adequate' damages should approximate those damages that will *fully compensate* the patentee for infringement." (App. 8a) The court also noted the statement in *General Motors*: "When Congress wished to limit an element of recovery in a patent infringement action, it said so explicitly." 461 U.S. at 653. The Court of Appeals interpreted this statement as it was surely intended, as a "caution[] against imposing limitations on patent infringement damages." (App. 8a) *Accord Diamond v. Chakrabarty*, 447 U.S. 303, 308 (1980) (the courts "should not read into the patent laws limitations and conditions which the legislature has not expressed").

The Federal Circuit found *Aro Manufacturing Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964), instructive as well. There this Court addressed how patent infringement damages should be measured in these words:

> The question to be asked in determining damages is "how much had the Patent Holder and Licensee suffered by the infringement. And that question [is] primarily: had the Infringer not

> infringed, what would Patent Holder-Licensee have made?"

377 U.S. at 507 (plurality opinion) (citation omitted). About this statement the Federal Circuit cogently said: "This surely states a 'but for' test." (App. 9a) And, with such limitations on full recovery as the Court of Appeals thought appropriate (about which Kelley does not, of course complain), the "but for" test of damages is the one the court applied.

In the face of these recent decisions of this Court, upon which the Federal Circuit overtly relied, Kelley cites a congeries of old patent cases, most from the nineteenth century. These cases long antedate the now 49-year-old amendment of the Patent Act that substituted the present statutory language, quoted above, which looks to the *patentee's damages*, for the previous regime which allowed recovery of either the patentee's damages or the *infringer's profits*. The old cases cited by Kelley, with one exception, all decided the propriety of an award of the infringer's profits, which required an apportionment of damages. The apportionment language in the remaining case cited by Kelley (Pet. 19), *Dobson v. Hartford Carpet Co.*, 114 U.S. 439 (1885), is dictum, criticized by a leading patent treatise writer as having been rendered "without careful analysis" and as illogical:

> Whatever purposes apportionment served with respect to equitable recovery of infringer profits, it clearly did not apply with equal force to a damage recovery where the basic theory was one of making the patent owner whole for all losses covered by the infringer's wrongdoing.

5 Donald S. Chisum, PATENTS § 20.03[1][c][i] at 20-122 (1993).

Nor has the Court of Appeals run afoul of this Court's antitrust cases (*e.g., Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 459 (1940)) forbidding extension of the patent monopoly to obtain a monopoly on unpatented material. As the Court of Appeals succinctly and accurately put it:

> These cases are inapposite to the issue raised here. The present case does not involve expanding the limits of the patent grant in violation of the antitrust laws; it simply asks, once infringement of a valid patent is found, what compensable injuries result from that infringement, *i.e.*, how may the patentee be made whole. Rite-Hite is not attempting to exclude its competitors from making, using, or selling a product not within the scope of its patent. The Truk Stop restraint was found to infringe the '847 patent, and Rite-Hite is simply seeking adequate compensation for that infringement; *this is not an antitrust issue.*

(App. 13a) (emphasis added).

2. The Court Of Appeals Followed This Court's Approach To Statutory Construction.

As noted in the foregoing section, the Federal Circuit began its interpretation of § 284, as this Court instructed in *General Motors*, by looking at the language of the statute. It then looked to the 1946 legislative history,

which supports the plain reading of the statute by confirming the breadth of the remedy. The statute meant for courts to award "general damages, that is, *any damages the complainant can prove.*" S. Rep. No. 1503, 79th Cong., 2d Sess. 2 (1946).

The Court of Appeals' interpretation of § 284 also makes it consistent with 35 U.S.C. § 271(d)(4), which provides:

> *No patent owner* otherwise entitled to relief for infringement or contributory infringement of a patent *shall be denied relief* or deemed guilty of misuse or illegal extension of the patent right *by reason of his having . . . (4) refused to* license or *use any rights to the patent. . . .*

(emphasis added).

This statute incorporates a principle recognized by this Court over 80 years ago, when it rejected the idea that a patentee that does not commercialize its invention to the exclusion of all its other products should be denied the full range of remedies available against infringers. In *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), the infringer argued that it should not be enjoined from infringing because the patentee did not practice the patent in suit. The Court rejected this argument, holding that a patentee is not a "quasi-trustee for the public." *Id.* at 424. The patent is the patentee's "absolute property," and, even if the patentee does not commercialize the invention, "he may insist upon all the advantages and benefits which the statute promises. . . ." *Id.*

After *Continental Paper Bag*, Congress rejected numerous attempts to punish the patent owner's failure to commercialize its invention by imposing compulsory licenses on patentees because of their "non-use" of the invention.[6] The hearings leading to the 1946 Act are illustrative. A Justice Department representative proposed limiting a patentee's recovery to a "reasonable royalty," instead of actual damages. Committee members and witnesses alike assailed this proposal, arguing that it would be tantamount to a compulsory license and would encourage infringement.[7] Adoption of § 271(d)(4) in 1988 was the culmination of Congress' historic aversion to compulsory licensing or other punishment for non-use of the patent.

Kelley proposes a rule that would require a court to deny recovery of actual damages caused by an infringer's unlawful conduct because a patentee has not incorporated its invention into all the products that its customers buy from it. Kelley's proposed rule would limit the patentee's remedy to recovery of a reasonable royalty from the infringer, at least until an enforceable injunction

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[6] Compulsory licensing provisions were rejected by Congress at least ten times between 1911 and 1950. *See* COMPULSORY LICENSING OF PATENTS -A LEGISLATIVE HISTORY, 85th Cong., 2d Sess. 1-15 (Comm. Pr. 1958). Indeed, an early draft of the 1952 Act actually included such a provision, but Congress declined to enact it. *See Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176, 215 n.21 (1980).

[7] Hearings on H.R. 5231 (later reported as H.R. 5311) before the House Committee on Patents, 79th Cong., 2d Sess. 17, 19-20 (1946).

against future infringement can be obtained (a process that took over four years in this case).

It was correct for the Federal Circuit to reject a construction of § 284 that would have the effect of ignoring § 271(d)(4) and imposing a result expressly and consistently rejected by Congress. *See Heckler v. Day*, 467 U.S. 104, 117-18 (1984).

B. There Is No Reason For This Court To Take This Case Up.

Congress created the Court of Appeals for the Federal Circuit in large part so that a single court would have jurisdiction over appeals in all patent cases and, by providing the consistency and uniformity that a single court can give to a body of law, would make patent law predictable, with anticipated beneficial consequences in the development of new products and technology.[8]

Like the other courts of appeals, the Federal Circuit has available – and utilizes with some frequency – the device of *in banc* consideration of appeals as a further guaranty of intra-court consistency. The Federal Circuit heard this case *in banc*, and while Judge Nies' dissenting

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[8] The availability of a clear, stable, uniform basis for evaluating matters of patent validity/invalidity and infringement/non-infringement renders more predictable the outcome of contemplated litigation, facilitates effective business planning, and adds confidence to investment in innovative new products and technology.

Aerojet-General Corp. v. Machine Tool Works, Oerlikon-Buehrle Ltd., 895 F.2d 736, 744 (Fed. Cir. 1990) (*in banc*).

view that the court was permitting broader damage awards than the statute authorized was strongly stated, she persuaded only two other of the eleven active judges of the court who participated in the decision.[9] Indeed, two judges of the court, in an opinion by Judge Newman, argued just as vehemently that the court was unduly restricting the award of patent damages by reversing two elements of the judgment[10] that Rite-Hite had obtained.

This is not to say that the Court ought *never* review *in banc* decisions of the Federal Circuit interpreting the Patent Act. The fact that it is difficult to conceive of such a case that would meet the Court's announced certiorari criteria does not mean that none could ever arise. But, as Rite-Hite will briefly show, this case does not present a constitutional question, and its resolution of the statutory construction issue is not appropriate for review.

1. This Case Presents No Constitutional Question.

One of the factors this Court has taken into consideration in deciding that a question is sufficiently important to merit plenary review is that the decision below is arguably inconsistent with some provision of the Constitution. Kelley halfheartedly suggests the presence of such a question here in subpart (f) of the first question it

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[9] Judge Bryson joined the court after argument and did not participate in this case. Senior Judge Smith, who also joined Judge Nies, participated because he was on the originally assigned panel, which did not render a decision before the court ordered the case taken *in banc*.

[10] *See* note 3, *supra*.

presents, where it contends that the Federal Circuit's decision "is inconsistent with the constitutional purpose" and "exceeds the constitutional power to reward inventors. . . . " (Pet. i-ii) The contention is insupportable, and Kelley makes no serious effort to support it.

The applicable provision, art. I, § 8, authorizes Congress:

> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;

On the face of this provision, it is plainly one of those broad Article I grants of power that leave it to Congress to decide how to carry them into effect. There have been patent acts on the books since 1790,[11] yet Kelley cites no case, and Rite-Hite knows of none, in which any court has ever struck down either a patent law or a damages award for violating this provision of the Constitution.

Surely, there can be no constitutional objection to awarding a patentee precisely those lost profits that it proves it has incurred because of violation of its right to exclude infringers from using its invention – profits on sales that would have been made by the patentee, rather than the infringer, if the patentee could have obtained and enforced an injunction when it filed suit, rather than four years later. Yet such are the undisputed facts of this case. The damages award to Rite-Hite and the appellate decision that upheld it present no constitutional question.

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[11] Act of April 10, 1790, ch. 7, § 1, 1 Stat. 109.

2. The Statutory Interpretation Question Presented Was Correctly Decided And, In Any Event, Should Be Left Up To The Federal Circuit.

As noted above, the Court of Appeals' decision was soundly rooted in this Court's modern patent damages cases, *General Motors* and *Aro Manufacturing*. With respect to the aspects of the decision which Kelley seeks to have reviewed, the court's determination that Rite-Hite should be fully compensated for Kelley's infringement, as established by clear proof of the sales lost to Kelley's infringing product, is consistent with the very congressional intent that those cases found embodied in the words of 35 U.S.C. § 284.

At its core, Kelley's argument (like that of Judge Nies) is that the essence of the patent right *should be* the right of a patentee to manufacture, use, and sell the patented invention. (Pet. 13-15) From this premise, Kelley argues that damages should be awarded only for injury to that right. But the premise is false and the conclusion necessarily wrong.

As the constitutional language suggests and 35 U.S.C. § 154[12] makes clear, patent infringement is not the invasion of the patentee's grant of an exclusive right to manufacture the patented invention, but of its right *to exclude others* from making, using, or selling the invention. *See Carl Schenck, A.G. v. Nortron Corp.*, 713 F.2d 782, 786 n.3 (Fed. Cir. 1983). Therefore, from the correct premise, it follows that patent damages should reflect the injury that the patentee suffers from violation of that right to exclude others. If Kelley had not sold truck restraints embodying Rite-Hite's invention, Rite-Hite would not have lost the sales and the profits on those sales that the District Court found and the Court of Appeals affirmed. The principle is as simple as that, and the Federal Circuit's decision upholding the award of lost profits on some of the sales and a reasonable royalty on others[13] was correct.

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[12] The statute provides, in relevant part:

> Every patent shall contain a short title of the invention and *a grant to the patentee*, his heirs or assigns, for the term of seventeen years, subject to the payment of fees as provided for in this title, *of the right to exclude others from making, using, or selling the invention* throughout the United States. . . .

(emphasis added).

[13] Although Kelley presents a separate set of questions for review regarding the Court of Appeals' affirmance of the reasonable royalty award (Pet. ii), it is difficult to imagine a more fact-intensive issue and one less suited for plenary review by this Court than a determination of what hypothetically would have been a reasonable royalty in a patent infringement case, a determination that even the Court of Appeals properly reviews under the minimal "clearly erroneous" standard of Fed. R. Civ. P. 52(a).

But even if the decision below were not so clearly correct, this Court ought not take up a statutory construction case that depends so heavily on its unique facts. Much of Kelley's argument is based not on the result in this case (other than that it lost) but on the supposed consequences for the future development of the law of patent damages if the error that it sees in the Court of Appeals' decision is not corrected. For example, it harps on the supposed danger in allowing lost profits damages for sales of unpatented products, but all the products whose sales and profits Rite-Hite lost because of Kelley's infringement were covered by valid patents.[14] A correctly decided case will rarely be the proper vehicle for this Court to review alleged misstatements of the law with supposed dire effects in future cases. The Federal Circuit should be left to develop the law of patent damages.

The Federal Circuit has certainly given careful consideration to the issues of statutory interpretation and patent law policy presented by this case, which was pending before it for three years before decision. Its exclusive jurisdiction over patent appeals insures that future cases raising different fact patterns will come

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[14] Kelley complains that it had no "opportunity to test the validity of those other patents." (Pet. 18) It is true that Kelley did not test the validity of Rite-Hite's other patents, but it was not prevented from doing so. In fact, it stipulated to their validity. (Tr. 195, 205) If it thought that there was any question as to their validity and that establishing invalidity would defeat Rite-Hite's strong showing of "but for" causation (such as by showing that Kelley could have deprived Rite-Hite of the sales in question by simply lawfully copying the competing Rite-Hite products), Kelley had every incentive – and clear standing – to raise the issue.

before the same court, affording ample opportunity for further refinement of the law (and further occasion, should the Federal Circuit ever stray far from congressional intent, for this Court to step in). Given all the cases with a legitimate call on this Court's attention, this petition, which meets none of the Court's announced criteria for exercising its discretionary jurisdiction, should be denied.

CONCLUSION

The petition for certiorari should be denied.

Respectfully submitted,

THOMAS L. SHRINER, JR.
Counsel of Record
RICHARD S. FLORSHEIM
JEFFREY N. COSTAKOS
FOLEY & LARDNER
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
(414) 271-2400

THEODORE W. ANDERSON
LEYDIG, VOIT & MAYER
2 Prudential Plaza – Suite 4900
Chicago, Illinois 60601
(312) 616-5600
Attorneys for the Respondent

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